SUBCOMMITTEE NO. 4 Agenda

Michael Machado, Chair
Tom Harman
Christine Kehoe

Agenda – Part A

Wednesday, June 4, 2008
9:30 a.m.
John L. Burton Hearing Room (4203)

Consultants: Daniel Alvarez, Bryan Ehlers, Brian Annis

May Revision and Open Issues

Department Budgets Proposed for Consent / Vote Only

(a consolidated vote-only recommendation is on page 12)

1. **0110 and 0120 Support for the Legislature – Senate and Assembly**
   Budget Adjustments. Under the terms of Proposition 140, the growth in the Legislature's budget is constitutionally limited to the growth in the state's appropriation limit (SAL). However, the Legislature recognizes the necessity for making reductions. According to the DOF, the year-to-year SAL increase is calculated to be 4.95 percent.

   Staff Recommendation: Adjust year-to-year SAL growth to 3.5 percent for both the Senate and Assembly budgets – this equates to a year-to-year reduction of $1.6 million and $2.1 million respectively -- when compared to the 4.95 percent growth limit prescribed by the State Constitution. It is important to note that under the terms of Proposition 140, this would be a *permanent* reduction that cannot be restored in future years. Staff will provide the appropriate schedule changes for purposes of reconciliation. This recommendation conforms to action taken by the Assembly.

2. **0160 Legislative Counsel Bureau**
   Budget Adjustments. A May Revision letter requests a technical correction to the Legislative Counsel Bureau's level budget balancing reduction to remove unachievable or impractical reductions. This results in reduced General Fund savings of approximately $7 million in the LCB budget.

   Staff Recommendation: Approve this portion of the May Revision Letter.

3. **Central Service Agencies (CSA) corrections - Various Budget Bill Items**
   The May Revision proposes to correct the problem of disproportionate budget reductions to agencies that provide central services, by not overstating the General Fund base of these CSAs.

   Currently, these departments and entities receive GF appropriations to provide central services to all departments regardless of their fund sources. Traditionally, for efficiency and ease of central cost allocation and recovery purposes, recovery of costs from non-GF departments for their services is not reflected in these entities. This recovery method resulted in the GF base in these agencies being incorrectly inflated. Without making a correction to their GF base, these entities will need to take more than a 10-percent reduction to their true GF base to achieve the amount of reductions proposed by the governor's budget.

   Staff Recommendation: Approve the May Revision letter changes (exclude the Legislature from this proposal, since prior action has been taken), but reject the trailer bill language. It is the intent of the Senate that the proposed trailer bill language be sent to conference committee for refinement.

4. New Control Section 35.80 -- Cash Flow Management

Given the uneven flow of revenues to the state during any given year, the state engages in short-term borrowing with revenue anticipation notes (RANs) to meet expenditures. RANs can only be issued when there is an approved Budget.

The May Revision proposes implementing a state cash management improvement program by smoothing out General Fund disbursements throughout the fiscal year to better match timing of General Fund receipts. The administration proposes a new Control Section that provides them (1) the ability, on an annual basis, to defer payments made to any state funded programs with the deferred payment month being within the same fiscal year as the original payment month, (2) provide 30-day notification to the Joint Legislative Budget Committee on the amount of the deferral, (3) specifies that deferral for specific programs may be done if notification is given within two weeks of the May Revision, and (4) permits the DOF to exempt any entity from payment deferral if a hardship case can be made.

The proposal's intended benefit is to reduce the amount of external RAN borrowing by approximately $3.5 billion – and therefore provide GF savings from reduced interest payments on the loan amount (in this instance, the DOF estimates approximately $55 million). The DOF still assumes a RAN of approximately $10 billion will be needed, even if this proposal were adopted.

The program areas mainly affected by the May Revision proposal include: K-12 categorical programs ($2.5 billion), University of California ($600 million), California Community Colleges ($245 million), child care and development programs ($147.5 million), Citizens Options for Public Safety/Juvenile Justice ($214 million), Williamson Act ($34.7 million).

Staff Recommendation: Adopt placeholder control section language which in principle keeps the idea of smoothing out payments on the table. However, do not adopt the proposed administration language. In addition, DOF should begin to look at other borrowable resources as a possible alternative to programs mentioned above.

5. 0890 Secretary of State

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary law, and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State's executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, and Information Technology and Management Services Divisions.

The Governor's Budget begins by funding 505.0 positions (a net increase of 7.0 positions over adjusted current year totals) and budget expenditures of $125.6 million (including $35.0 million GF) for the department, but then includes a 10-percent, across-the-board, unallocated GF reduction of approximately $3.5 million.

May Revise Letter: Early Presidential Primary Costs Incurred by Counties (with provisional language). The Secretary of State (SOS) requests $89.6 million in General Fund (GF) local assistance to pay for costs incurred by counties for the Presidential Primary election held in February 2008 pursuant to Chapter 2, Statutes of 2007 (SB 113).

Staff Comments: This item was heard on May 21, and held open to allow additional discussions between legislative staff, the counties, and the Administration regarding the validity of election costs claimed by the counties. In subsequent conversations, the parties developed a consensus understanding that the state needed more detailed county cost information in order to ensure that only valid costs were reimbursed. For example, legislative staff noted concern that some counties might be billing for equipment or legal costs that would be more appropriately paid out of federal funds or the counties' own pockets. As previously noted, the data originally provided to the Legislature was insufficient to determine the source of the claimed costs.

In order to address the Legislatures' concerns, the counties agreed to report additional cost detail—including salaries, various service and supply costs, and postage (see Attachment 1 for more details). As indicated in the staff recommendation (below), the Legislature could appropriate an amount consistent with the estimated costs reported by the counties and then require the State Controller's Office (SCO) to conduct an audit of the costs to determine whether or not the costs were valid based on criteria identified by the Legislature. Because the $89.6 million requested was based on a preliminary estimate from the counties, the Subcommittee may wish to send this issue to Conference Committee in order to allow the counties additional time to collect more up-to-date cost data.

Staff Recommendation: APPROVE placeholder TBL requiring the SCO to audit the counties' costs. Additionally, APPROVE $89.6 million GF, and placeholder provisional language to schedule the maximum payment due to each county. By non-conforming to the Assembly, this action would send the item to Conference Committee and allow additional time to refine the county cost estimates as well as the methodology for paying the costs.

6. 9210 Local Government Financing

The 9210 budget item includes a variety of State General Fund subventions to local governments for general or specific activities.

Redevelopment Agencies – Compliance with Pass-Through Requirements (LAO Issue). The LAO recommends budget action to recover State overpayment to school districts in the past five years that have resulted from inaccurate accounting and reporting practices by Redevelopment Agencies (RDAs) and school districts – General Fund savings of $98 million in 2008-09 would result. A recent audit by the State Controller's Office found that, contrary to the requirements of law, some redevelopment agencies (RDAs) are not making pass-through payments to K-14 districts and some K-14 districts are not properly reporting their pass-through payments to the state. The understatement of K-14 property tax revenues has resulted in additional state General Fund costs to meet the funding requirements of Proposition 98 and school revenue limits. The LAO estimates that these changes would reduce state education costs by about $98 million in 2008-09 and by somewhat lower amounts annually thereafter. These changes also would benefit K-14 districts and other local entities by ensuring that they receive pass-through revenues to which they are entitled under state law.

Detail / Background: Under current law, if a community finds that it has an urban area with serious physical and economic blight, it may create a redevelopment project area. Once a project area is established, the county auditor annually allocates all growth in property taxes due to increases in assessed value within the project area (known as tax increment revenue) to the community's redevelopment agency. Accordingly, tax increment revenues are property tax revenues that are diverted from schools and local governments to RDAs in order to finance redevelopment. In 2008-09, LAO estimates that California RDAs will receive about $4.9 billion of tax increment revenue, about 11 percent of total property taxes.

<u>RDA Pass-Through Requirements</u>***.*** Under State law, redevelopment agencies must return a portion of their tax increment revenues to other local agencies as "pass-through" payments.

<u>A Portion of the Pass-Through Must Be Reported as K-14 Property Tax Revenue</u>***.*** Any school district or community college district that receives pass-through payments from a redevelopment project created after enactment of the Community Redevelopment Law Reform Act of 1993 ("AB 1290") or amended pursuant to SB 211 must report a portion of these payment as an offset to state apportionments. For K-12 districts, the portion of their pass-through payment that offsets state apportionments is 43.3 percent. For community college districts, the portion is 47.5 percent. In essence, the state allows K-14 districts to retain more than half of these pass-through tax increment revenues as a supplement to their normal funding, with the state General Fund making up the difference through school apportionments and Proposition 98 funding.

LAO Recommendations: The LAO makes the following recommendations to correct the past payment and reporting errors for RDA pass-throughs and to improve ongoing compliance:

Five Year RDA Recapture Provision (About $50 million in 2008-09). LAO recommends enactment of budget trailer bill legislation directing RDAs and county auditors to jointly calculate (for each project area created after AB 1290 or amended pursuant to SB 211) the amount of pass-through payments that the RDA (1) should have provided and (2) actually made to each local agency over the last five years. The RDAs and county auditors will submit this report to the Legislature, State Controller, Department of Finance, and all affected local agencies by September 15, 2008 and shall provide an updated report by March 15, 2009, and every six months thereafter as long as there are any outstanding pass-through liabilities for this period. If the September 15, 2008 pass-through report indicates that an RDA has an outstanding pass-through payment obligation, it would be required to pay those amounts to each local agency by November 1, 2008.

Enforcement Mechanisms. In order to ensure compliance with the recapture provision, the LAO proposes including several enforcement provisions in the trailer bill legislation. Until an RDA's past pass-through obligations (if any) have been satisfied (as confirmed by the county auditor), a redevelopment agency could not amend or create a redevelopment plan or add debt to its Statement of Indebtedness. Starting in November 2008, interest would accrue on any outstanding pass-through payment obligation at a rate equal to twice the Pooled Money Investment Account rate. Because the recapture payments are not new obligations, they could not be designated as additional RDA debt to extend the life of any redevelopment project or increase the amount of debt used to determine the amount of tax increment revenue that an RDA may receive. County auditors would be reimbursed by RDAs for costs incurred by them to carry out these tasks.

Accounting and Reporting. In the case of K-14 education, instead of depositing the full amount with the district, the redevelopment agency shall deposit to the county ERAF 43.3 of any amount owed to a K-12 district and 47.5 percent of any amount owed to a community college district.

Five-Year K-14 Recapture (estimated $20 million annually). In order to correct underreporting or misreporting by K-14 districts of pass-through payments to the state over the last five years, LAO recommends a temporary increase in the portion of future pass-through payments counted as property tax revenue (and deposited into Educational Revenue Augmentation Funds (ERAF), as discussed below) for those districts. The increase would be from 43.3 or 47.5 percent to 80 percent until such time as the amount of underreporting has been offset. If a K-14 district would incur significant hardship associated with this temporary change, the LAO proposes that the districts, with the assistance of their county office of education, propose an alternative schedule for correcting the underreporting.

Simplify and Improve the Accountability of the Pass-Through Mechanism ($28 million annually). LAO recommends the following statutory changes to greatly simplify the pass-through process:

- Place Responsibility with County Auditors**.** Shift the responsibility for calculating and making pass-through payments from redevelopment agencies to county auditors. This will centralize responsibility for these calculations and payments in the county official generally responsible for property tax allocations. Furthermore, this will facilitate oversight by the State Controller's Office since the office already works closely with county auditors regarding property tax allocation.
- Use ERAF to Simplify Payments and Reporting**.** Require county auditors to deposit into their county Educational Revenue Augmentation Fund (ERAF) the portion of RDA pass-throughs that must be reported as K-14 property tax revenue. Placing this portion of the payments directly in ERAF, where they directly offset state apportionment and Proposition 98 costs, avoids relying on the individual K-14 districts to allocate, record, and report their pass-through payments accurately (especially since they may receive several types of pass-through payments subject to different rules and not always properly identified by the RDA). County auditors would pay the supplemental funding portion of the pass-throughs to the K-14 districts. In the case of basic aid (or “excess tax”) K-14 entities, they would receive additional payments from ERAF to the extent that their pass-through payments were deposited to ERAF.

Staff Comments: This issue has been brought to the attention of Subcommittee 1. However, the specific responsibilities and tasks that would be imposed by the proposed trailer legislation affect redevelopment agencies and county auditors—entities of local government that are within the jurisdiction of Subcommittee 4. LAO has presented a detailed roadmap to the resolution of this problem, particularly given the brief amount of time since the State Controller's audit was released. However, additional discussions should take place with the State Controller's Office, Department of Finance, redevelopment agencies, county auditors, and the education community regarding the specific features of this approach. Consequently, staff recommends adopting the LAO recommendations as placeholder trailer bill language, to move this issue forward to Conference, and score an initial estimate of $98 million of General Fund savings. This issue was discussed in the full Budget Committee on June 2.

Staff Recommendation: Adopt placeholder TBL and score $98 million of General Fund savings.

7. 9350 Shared Revenues

The 9350 budget item apportions special monies collected by the State to local governments on the basis of statutory formulas. Of the amounts displayed in this budget item, $12.3 million is General Fund and $2.1 billion is special funds and federal funds. As indicated, the apportionments are generally statutory, and this year, there is no budget bill appropriation for this budget. However, the Administration proposes trailer bill language to implement 10-percent budget reductions for the two General Fund apportionments.

Trailer Vehicle License Fee (Governor's Budget). This budget item apportions revenue to cities and counties that lost Vehicle License Fee (VLF) revenue when the State converted from an un-laden weight system to a gross vehicle weight system for purposes of assessing VLF for commercial vehicles. This change conforms to the International Registration Plan, a reciprocity agreement among US states and Canada for payment of commercial license fees based on distance operated in each jurisdiction. This funding is deposited in the Local Revenue Fund to support local health and welfare programs. This is associated with a state/local healthcare realignment implemented in 1991. The Governor proposes a $1.2 million cut (10 percent) to this $11.9 million backfill apportionment. This apportionment was instituted before, and is separate from, the VLF Swap that shifted property tax to cities and counties to backfill for the VLF rate reduction. <u>This issue was previously discussed in the Subcommittee on April 7 and May 22 and held open</u>.

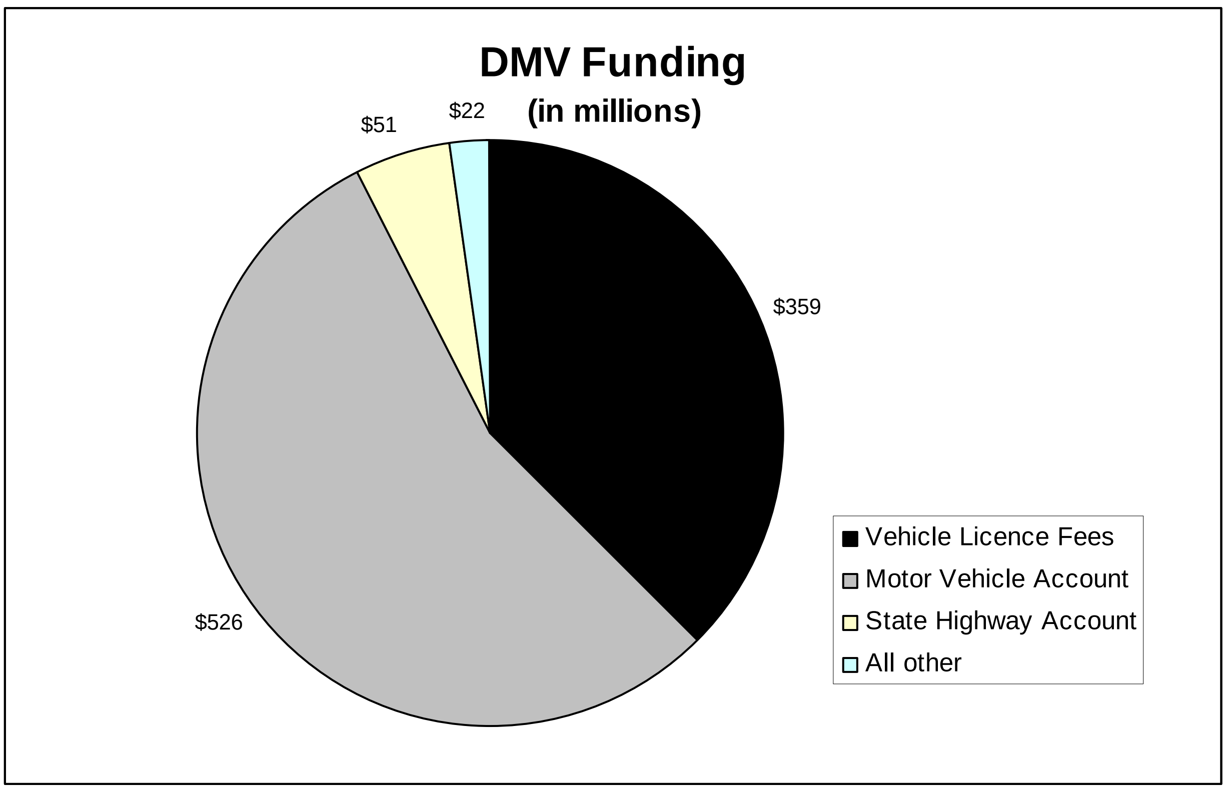
Staff Recommendation: Approve the Governor's budget reduction.

8. 2740 Department of Motor Vehicles

According to the Governor's budget, "the mission of the Department of Motor Vehicles (DMV) is to effectively and efficiently serve the public by:

- Registering vehicles to identify and authorize use, and titling vehicles to establish ownership interest for consumer protection.
- Licensing and regulating the motor vehicle industry and licensing drivers to protect consumers and promote traffic safety.
- Establishing true identity to ensure the validity of licensed drivers and identification card holders, and securing personal information for consumers' protection."

Vehicle License Fee Revenue. It is not mentioned in the Mission Statement, but the DMV also collects the Vehicle License Fee (VLF), an in lieu property tax, on behalf of local governments. Despite the collection of the VLF not being a primary function of the DMV, 37 percent of the DMV's budget comes from the VLF – these are funds that would otherwise go to local governments.



Background / Detail: For 2008-09, the VLF is projected to generate about $2.39 billion. The VLF revenues are allocated as follows:

- $1.8 billion continuously appropriated for local government pursuant to the 1991-92 State-Local Program Realignment (Realignment);
- $234 million apportioned to local governments; and
- $359 million for the DMV (plus about $6 million for the Controller and FTB).

Staff Comment: The $359 million for the DMV is about 15 percent of the total VLF revenues. This appears to be a high percentage, given that the function of collecting the local VLF funds is done concurrently with the collection of the regular vehicle registration fees.

Rather than the DMV being disproportionately subsidized with local VLF revenues, the DMV should be adequately funded by the primary funding source, the Motor Vehicle Account (MVA). This can be accomplished by capping VLF funds for the DMV at ten percent.

If the DMV's share of the VLF revenues were to be reduced, more funds could be provided to counties through Realignment. And if Realignment is increased, then Subcommittee #3 can avoid some of the Governor's most difficult cuts to the In Home Supportive Services (IHSS) program by shifting additional IHSS costs to Realignment.

With a fund balance of over $230 million, the MVA should be able to absorb a phasing down of the VLF share in 2008-09. This may result in the need for modest fee increases in future years, perhaps as much as $4 for annual car registration.

It should also be noted that the LAO's alternative budget includes a similar proposal which would realign $130 million of the VLF from the DMV to local governments as part of their Parole Realignment proposal.

Staff Recommendation:

- Approve placeholder Trailer Bill Language capping the DMV's share of VLF revenues at 10 percent in 2008-09, and increasing the portion going to Realignment;
- Reduce VLF funding for the DMV by $120 million; and
- Increase MVA funding for the DMV by $120 million.
- Under open issues, the additional Realignment revenues enable $120 million of IHSS costs to be reduced from the General Fund and instead drawn from Realignment. Therefore, in the Department of Social Services budget, we shift $120 million of IHSS costs to Realignment, resulting in the same amount in General Fund savings. This will require technical changes to trailer bill and budget adjustments, with direction to Finance to effectuate this shift-out of funds.

9. 9800 Augmentation for Employee Compensation

This budget item includes funding for pay and benefit increases for those costs that exceed the baseline costs already included in individual department budgets. Generally, this item includes employee compensation funding based upon approved Memoranda of Understanding (MOU) with the State's 21 bargaining units and funding for health benefit inflation. Also included is compensation increases for excluded employees as is determined by the Department of Personnel Administration or other authorized entities. All bargaining units except Unit 5 (California Highway Patrol Officers) have expired contracts or contracts that will expire at the end of 2007-08.

The Governor's Budget proposed $646 million ($392 million General Fund) in Item 9800. Included in this amount is a funding request of $230 million General Fund for the Last, Best, and Final Offer (LBFO) of the Administration to the California Correctional Peace Officers Association (CCPOA), although no policy bill to implement that offer has been introduced to date (note, an additional $260 million is also budgeted in 2007-08 for that LBFO that would be appropriated from the implementing legislation). The LAO indicates that the *total* cost for State employees' salary is about $23 billion, with an additional $7 billion for benefits and other related costs (including universities for both cost measures). The General Fund supports more than one-half of this total.

The May Revision proposes to move $421 million of the CCPOA LBFO from this item to the reserve ($186 million of the reduction is for 2008-09, and $235 million of the reduction is for 2007-08), and retain about $70 million over the two years for health inflation for CCPOA. Other minor changes are included in the May Revision to conform the budget to new cost estimates for other units.

April 7, Sub 4 Hearing: The Senate heard Item 9800 issues at the April 7 hearing. In the *Analysis of the 2008-09 Budget Bill*, the LAO had recommended rejection of $550,000 ($331,000 General Fund) included in this item for a new pay differential for workers associated with the Human Resources Management System (HRMS), because the Administration did not have a comprehensive plan for when and how to apply the differential to other enterprise projects – the Subcommittee rejected the funding noting possible reconsideration after the plan was received. The Assembly also rejected this funding at a May 27 hearing. While a plan has been submitted, the General Fund gap has grown by several billion dollars. Given the budget situation, Staff recommends no further action on this issue (do not reverse the rejection of this funding). Under current law, the Administration has the discretion to set pay for *excluded* employees, constrained by the sufficiency of existing appropriations. To the extent the Administration believes such differentials are critical for excluded employees of HRMS and other enterprise projects, they can implement the differential with redirected funds in departmental budgets.

(see next page for action issues)

A. Last, Best, and Final Offer to CCPOA: In January, the Administration budgeted $490 million (General Fund) to fund the implementation of the Last, Best, and Final Offer (LBFO) to the California Correctional Peace Officers Association (CCPOA). With the May Revision, the Administration would move all but $70 million of this amount to the budget reserve. The Administration indicates it still supports implementation of the LBFO; however, no implementing policy legislation has been introduced to date.

LAO Recommendation: In the *Analysis of the 2008-09 Budget Bill*, the Legislative Analyst recommends rejection of funding (General Fund) for the CCPOA Last, Best, and Final Offer.

Staff Comment: For consistency, the Subcommittee may want to move *all* funding for the LBFO out of this item, with the intent that funding would be included in a policy bill that implements the LBFO or a future MOU. When the budget was developed, the Administration may have anticipated enactment of a policy bill to implement their Last, Best, and Final Offer, but no policy bill has been introduced to date. Since the timeline for a CCPOA MOU now seems consistent with the timeline for other bargaining units with expired or expiring MOUs, it may make more sense, and be more in keeping with standard budget procedure, to remove this funding from the budget.

Because the budget bill does not schedule funding by bargaining unit, Staff recommends the following budget bill language to specify the reduction.

Items 9800-001-0001, 9800-001-0494, and 9800-001-0988
Provision__. The funds appropriated by this item and any other item may not be used or expended to fund any compensation proposal in the last, best, and final offer made by the state employer to State Bargaining Unit 6 implemented on September 18, 2007. Nothing in this act shall be construed as Legislative approval for the expenditure of funds in accordance with that state employer's last, best, and final offer, as required by subdivision (b) of Section 3517.8 of the Government Code.

<u>This issue was also discussed at the April 7 hearing</u>.

Staff Recommendation: Delete all budget funding for the Last, Best, and Final Offer in both 2007-08 and 2008-09 and adopt the Staff budget bill language.

B. May Revision Cost Estimates: In the May Revision, the Administration requests to augment the General Fund appropriation by $3.4 million and decrease other fund appropriations by a total of $35.6 million to reflect revised estimates pursuant to existing bargaining unit agreements.

LAO Recommendation: The Legislative Analyst recommends approval of these funding changes, but also suggests new budget bill language to clarify that the approval of these items do not represent approval of any side-letter agreements that are still working their way through the policy committees.

Items 9800-001-0001, 9800-001-0494, and 9800-001-0988
Provision __. This item contains funds estimated to be necessary to implement side letters, appendices, or other addenda to memorandum of understanding (collectively, referred to as "pending agreements") that have been determined by the Joint Legislative Budget Committee to require legislative approval prior to their implementation, but which may not have been approved in separate legislation as of the date of the passage of this act. In the event that the Legislature does not approve separate legislation to authorize implementation of any of the pending agreements, the Department of Finance shall allocate no funds related to such pending agreements pursuant to Provision 2 of this item, and the expenditure of funds for such pending agreements shall not be deemed to have been approved by the Legislature.

Staff Comment: A portion of funding for this item addresses health-care inflation costs that will be affected by the final negotiated rates between CalPERS and healthcare providers. The LAO had recommended sending this issue to Conference Committee so further adjustments could be made in conformance with the actual negotiated costs. The Assembly already reduced funding by $1,000 for each appropriation to take this issue to conference, so no further action is required. Note, some unit have contracts that tie the state health contribution to a percentage of total cost instead of a flat dollar amount – therefore, those provisions and those costs continue for affected units, even after the expiration of contracts.

Staff Recommendation. Approve the revisions to cost estimates and adopt the LAO budget bill language.

Staff Recommendation: Approve Staff Recommendations as indicated for each of the vote only issues.

Vote:

Issues Proposed for Discussion / Vote:

2640 State Transit Assistance / 2660 Department of Transportation

Crosscutting Issue: Allocation of Transit Revenue.
The Administration's May Revision revenue forecast estimates over $2.0 billion in transit revenues that come from a portion of the sales tax on fuels. This estimate is up about $400 million since the January estimate due to rising fuel prices. This revenue has also grown dramatically in the past decade due to higher gasoline prices – in 2000 to 2002 revenues from these sources were under $300 million annually.

Major 2008-09 "transit" revenues	May Revision Revenue Forecast (in millions)
Spillover (gas sales tax above Prop 42)	$1,177
Prop 42 (part $1.4B total)	$286
Diesel Sales Tax	$492
Prop 111 (small part of gas sales tax)	$65
TOTAL	**$2,020**

The traditional use of these revenues is operations funding for transit agencies (via 2640 State Transit Assistance (STA)) and funding for transit capital projects and intercity rail operations (via 2660 Department of Transportation (Caltrans)). In many recent budgets, some transit revenue has been diverted to General Fund relief. Diversions to the General Fund were adopted on a year-by-year basis, until the 2007-08 budget, when an ongoing formula was adopted. The ongoing formula diverts half of the spillover revenue from the Public Transportation Account (PTA) to the new Mass Transportation Fund (MTF). The MTF is used for transportation expenditures otherwise funded by the General Fund. The ongoing formula was intended to specify an ongoing share for transit to promote predictability for transit and aid the General Fund.

Governor's Proposed Allocations: Under the current law allocation, traditional transit categories would receive about $1.3 billion of the revenue and about $736 million would go to transportation expenditures that provide General Fund relief. The Governor's May Revision proposes revisions to current law to decrease funding for traditional transit to about $591 million (a $694 million decrease) and increase General Fund relief to about $1.4 million (a $694 million increase). The chart on the following page shows the current-law and proposed allocation of transit funds.

Allocation of "transit" revenues	Current-Law Allocation (in millions)	Governor's Allocation (in millions)
Prop 42 Loan Repayment (via MTF)	$83	$83
GO Debt (via MTF)	$506	$607
Home-to-Schools transit (via PTA)	$0	$593
Disability Svcs transit (via PTA)	$147	$147
State Transit Assistance (via PTA)	$886	$306
Caltrans / other (via PTA)	$399	$285
TOTAL	**$2,020**	**$2,020**

Subtotal: GF Relief	**$736**	**$1,430**
Subtotal: Traditional Transit	**$1,285**	**$591**

Proposal for 2640 State Transit Assistance (STA): As indicated in the above table, the amount current law would provide for STA is $886 million and the Administration is proposing funding of $306 million. As background, $624 million was allocated in the 2006-07 budget (however, this was about $150 million more than the historic allocation formula would provide due to a one-time loan repayment, and an increased share of PTA revenues) and $306 million was allocated in the 2007-08 budget (however, this was about $340 million less than the historic allocation would provide due to redirection of revenue to support General Fund relief). The Governor's January budget proposed $743 million for STA, which tied to current law and the January revenue estimates.

Proposal for 2660 Department of Transportation (Caltrans): As indicated in the above table, the amount current law would provide for "Caltrans / other" is $399 million and the Administration is proposing funding of $285 million (the "other" category includes about $10 million spread across the High-Speed Rail Authority, the University of California, and the Public Utilities Commission). As indicated at the April 23 hearing, the amount proposed for Caltrans would not be sufficient to support ongoing capital and intercity rail expenditures in 2008-09, and loans of about $60 million from other transportation funds are proposed by the Administration.

Proposal for General Fund Relief: As indicated in the above table, the amount current law would provide for General Fund relief is $736 million and the Administration is proposing funding of $1.4 billion. The additional General Fund relief would primarily be directed to Home-to-Schools transportation ($593 million above the January budget) and transportation-related general obligation bond (GO Bond) debt service ($235 million above the January budget).

Historic Context: Most of the past General Fund relief has been shifted from the "spillover" component of funding. The spillover transfer dates back to legislation enacted in the early 1970s when a quarter cent of sales tax on all goods was shifted to local governments for transportation purposes. To compensate the General Fund, the sales tax was applied to gasoline for the first time. A spillover trigger mechanism was also adopted that shifted any net General Fund gain to transportation (i.e. when the revenue from gasoline sales tax exceeds revenue from a quarter cent sales tax on all goods, the excess is spillover revenue). In 13 of the past 24 years, the trigger has not been activated, and there has not been any spillover revenue. However, since 2003, rising gasoline prices have resulted in the trigger activating and increasing amounts of spillover revenue. Proposition 42, approved by voters in 2002, shifted sales tax on gasoline to transportation purposes, but did not revise the spillover formula. Since Proposition 42 includes a transit component, and is intended to be a stable source of transportation funding, the spillover concept is antiquated and has proven to be anything but a stable source of transit revenue. Last year's Budget Act agreement recognized this, and it opened the door to spillover funds being used for transportation-related purposes traditionally borne by the General Fund.

Issue for Consideration: In evaluating the Governor allocation of transit revenue, the Subcommittee may want to consider the following goals or targets.

- Provide significant General Fund relief – difficult actions are required to close the General Fund gap.
- Limit General Fund relief to spillover revenue / protect base transit revenues – post Proposition 42, spillover is antiquated and not a dependable transit revenue. Base non-spillover revenue (part of Prop 42, Prop 111, and diesel sales tax) should be retained for traditional transit purposes to maintain the State's core role in transit investments.
- Fund State Transit Assistance at the full share of non-spillover revenue ($494 million, which is $188 million more than the Governor) – To the extent possible, this should be a stable revenue floor for transit operations.
- Fund Caltrans sufficiently to avoid the need for loans from other transportation funds ($60 million in loans are proposed by the Governor) – loans create risks for the programs and projects otherwise funded by the loaned funds.
- Fund Caltrans to minimize project delays for transit capital projects in the State Transportation Improvement Program (STIP) – The California Transportation Commission (CTC) indicates that $65 million in STIP projects were proposed for 2008-09, which would be pushed to an outyear under the Governor's funding plan.

Staff Comment: The Assembly restored $317 million to traditional transit relative to that requested by the Governor (thus reducing General Fund relief from $1.4 billion to $1.1 billion). The Assembly restoration was all on the State Transit Assistance side, no additional funding was provided for Caltrans. The Subcommittee may want to consider the Assembly level of funding, but shift a portion to Caltrans to avoid the need for loans from other transportation funds, and to avoid delays for transit STIP projects. The Administration has proposed trailer bill language to remove the sunset on inter-transportation-fund loan authority and allow loans from the Pooled Money Investment Account – while new loans may not be needed, this authority provides helpful flexibility to Caltrans in meeting its obligations.

Staff Recommendation:

- Fund State Transit Assistance at $494 million ($188 million more than the Governor).
- Fund Caltrans at $415 million ($129 million more than the Governor).
- Conforming action would include adjustments to the STA and Caltrans STIP appropriations, the Home-to-Schools Control Section, and implementing trailer bill language.
- Adopt, as placeholder, the Administration's loan trailer bill language, but limit the authority to three years, instead of permanent.

Vote:

Attachment 1

Costs for February 2008 Presidential Primary Election

feb costs breakout.xls

How to complete the Costs spreadsheet: Please enter your data in column C of the Costs spreadsheet. All other totals will automatically calculate.

		Complete Only This Column	Totals:		
		Costs	Subtotal	Category	Grand
Salary					
	Perm Staff		0	0	0
	Temp/Contract				
	Election Day Help				
Services and Supplies				0	
Printing					
	Ballots		0		
	Sample Ballots				
	Other				
Precinct Supplies					
	Kits/manuals		0		
	Rosters/Street Index/ signs				
Rental	Vans/polling places/lights/forklifts/phones		0		
Drayage	delivery services		0		
Other	all other necessary services		0		
Postage					
	Sample ballot/VBM/MB/Postcards/etc		0	0	